(b) and (c) It is necessary to keep the subsidy bill within the limit of fiscal means in order to avoid the adverse effects of fiscal imbalance on inflation and also balance of payments. However, while containing the subsidies, it is the policy of the Government to safeguard the interest of the poor and needy.

Indirect capital inflow

245. SHRI B. K. HARIPRASAD: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that any significant increase in Forex reserves contributes to rise in rate of inflation;

(b) what are the steps taken to consolidate the Forex reserves;

(c) what percentage of total Forex reserves are actual direct investments (as against proposed/committed) and how much are indirect capital inflow; and

(d) what are the steps taken to guard the economy against the indirect investment of foreign capital?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI M. V. CHANDRASHEKHAR MURTHY): (a) A large increase in foreign exchange reserves tends to increase reserve money and money supply and thus add to the potential for inflation. While the growth in foreign exchange reserves has been large this year, its impact on reserve money expansion has been neutralised, to some extent, by a decline in net Reserve Bank credit to Government such that the growth in reserve money has been lower at 14.5 percent during this year up to February 3, 1995 against a growth of 18.3 percent in the corresponding period of last year.

(b) The recent steps to contain the impact of rising foreign exchange reserevs on monetary expansion includes;

(i) the agreement between the RBI and the Government to phase out automatic monetization of budget deficit;

(ii) open market sales of Government securities by the RBI;

(iii) the raising of cash reserve ratio (CRR) from 14 percent to 15 percent;

(iv) abolition of FCNRA deposit scheme;

(v) imposition/raising of CRR requirements on FCNR(B) and NR(NR) RD schemes; and

(vi) Euroissue guidelines requiring repatriation of GDR proceeds only when actually needed.

(c) Stock of reserves at any point of time is the result of transactions of both current and capital nature over the years. The inflows in the form of foreign investments, direct and portfolio, during 1991-92 to 1994-95 are as follows:

Inflows under Foreign Investment

(US $ million)

	1991-92	1992-93	1993-94	1994-95 (Apr. Jan
A. Direct Investment	150	341	620	857
B. Portfolio Investment of which:	8	92	3493	3211
FIIs	..	1	1665	1264
GDRs	..	86	1463	1727
Offshore funds % others		5	365	220

(d) Reserves cannot be attributed directly to any one component of inflows. However, portfolio investment is potentially mobile and can therefore put a strain on reserves. Actual inflows and outflows depend on many factors, including, especially, perceptions regarding the macroeconomic fundamentals of the economy and confidence in economic management. The cumulative portfolio investment during the last four years, however, constitute less than 30 per cent of gross foreign exchange reserves, which provides ample cushion against possible outflows.

Pre-payment of Annual

246. SHRI B. K. HARIPRASAD: Will the Minister of FINANCE be pleased to state:

(a) what is the quantum of external debt and the percentage of commercial borrowing components therein;

(b) whether it shall be possible to continue pre-payment of annual debt service charges to IMF as has been done earlier; and

(c) whether there has been a reduction in growth rate of external debt during 1991-93 as compared to later eighties?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (M. V. CHANDRASHEKHAR MURTHY): (a) The total external debt outstanding including defence debt, NRI Deposits and short term debt is estimated to be US $ 90.723 billion at the end of March, 1994. The percentage of commercial borrowing components therein works out to approximately 12.70%.

(b) The Government will take a final view on the matter at the appropriate time based on our balance of payments position and the foreign exchange reserves.

(c) Yes, Sir.

Malhotra Committee Recommendation

247. SHRI B. K. HARIPRASAD: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that a few Australian firms have evinced keen interest in entering into Indian General Insurance market;

(b) what is the status of implementation of Malhotra Committee recommendations of restructuring the insurance industry as on date; and

(c) what are the compulsions/reservations on Government going slow on Malhotra Committee Report even after other core sectors have been thrown open to overseas investors?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI M. V. CHANDRASHEKHAR MURTHY): (a) to (c) After the Malhotra Committee submitted its report on reforms in the insurance sector, representatives of some Australian Insurance Companies visited our country.

The recommendations of the Malhotra Committee are under consideration.

Restructuring the capital bases of Nationalised Banks

248. SHRI GHUFRAN AZAM: Will the Minister of FINANCE be pleased to state:

(a) whether Government have proposed to restructure the capital bases of some nationalised banks with foreign funds provided by the World Bank and other agencies;

(b) whether Government have made out scheme for restructuring of the capital base of some of these banks only and not provided to others; and

(c) if so, the facts and reasons thereof?